RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

Since 1958 •

Post Office Box 1759, La Jolla, California 92038

26 Letters Per Year • $250 annually

Aug. 21, 1991 **LETTER 1076**

Aug. 9 DJIA 2996.20; PTI 3345; A-D Ratio -10.97
Aug. 16 DJIA 2968.02; PTI 3353; A-D Ratio -10.81
Dow Yield: 3.08%; Dow P/E: 22.8; DowPow: 5
Dow 200-day MA: 2816; Dow 30-day MA: 2995
Dow Book Value: 1331; PTI 89-day MA: 3298
Percentage of Undervalued Blue-chips: 13%
Summation Index: 1743

WHAT DOES RICHARD RUSSELL THINK? I think this country remains in recession. I think all those rosy government statistics to the effect that the recession is over -- are bunk. I think the government's statistics on low inflation are malarkey. I think the rising bond market acts like the recession is still here. The strong bond market is telling us that the Fed has to keep lowering interest rates in an effort to stave off a worse economic mess. I think stocks have been rising largely as a reflection of declining interest rates. I think the Transportation Average has been diverging (trending down) because the trucks and the rails and the airlines don't see any pickup in shipping and travel. I think the ominous new lows in the CRB Commodities Futures Index are spelling trouble.

The above paragraph was what I originally wrote; that was the way I was going to start this Letter as of late last week. Then on Sunday night came the shocking news of Gorbachev's overthrow and the forceful takeover of the Soviet government by the hardline Communists. I rose at 3:15 AM, got on my treadmill (I like to exercise early), and turned my TV to CNN's "Business Day" program, which starts at 3:30 AM here in California. The effect on the world's markets was as expected as the new Russian "revolution" was unexpected. The dollar surged, particularly against the Deutsche mark. Gold popped up but not by much. The Japanese Nikkei "fell out of bed," down a thunderous 1357 points to close below 22,000 for the first time this year. The German market declined by almost 11%, and markets across Europe were down hard.

With Gorbachev under "house arrest" and Yeltsin calling on the Russian people to "resist" the brazen Communist takeover, everything is "fluid" as they say, or at least it is as I write this report. As expected, the US market opened sharply lower (Dow down over 100 points the first hour), and across the land investors and politicians are trying to figure out what the extraordinary events of August 18-19 mean. Unfortunately for me as I write this Letter, it's too early to tell.

Will the cold war start up again? Will the Russian people (who love Yeltsin but detest Gorbachev) stand up to the hardline Communists? (Personally, I doubt it.) Will the hardliners try to totally undue what Gorbachev has done? Is this the end of glasnost and perestroika? Will cooperation between the Soviets and the US evaporate entirely? Will the Russian troops pull out of East Germany? Can the Communists stave off economic collapse in the Soviets? What will happen to Czechoslovakia and the other Soviet satellites who have opted for freedom and democracy? All questions that will have to be held in abeyance -- they are obviously unanswerable now.

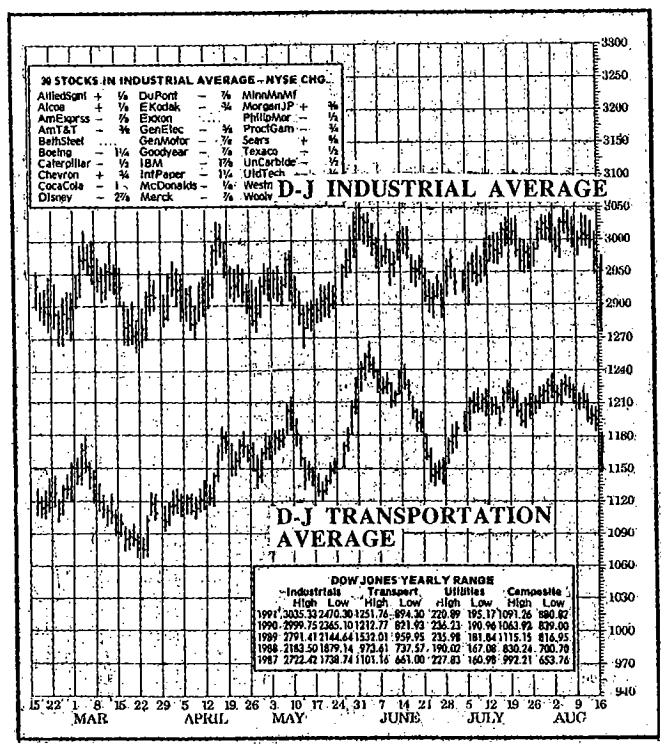
THE MARKET: In the last Letter I wrote that "the PTI has been on a solo flight to new highs. So far, nothing else has followed." But things change. A few days later, on August 6, the market rallied, and new all-time highs were recorded by the S&P 500 Composite, the S&P 400 Industrials, the NYSE Composite and the NYSE Industrials. On August 7, the S&P MidCap 400 (medium priced stocks) hit a new high as did the Wilshire 5000. On August 13, the NYSE Financial Index recorded a new high.

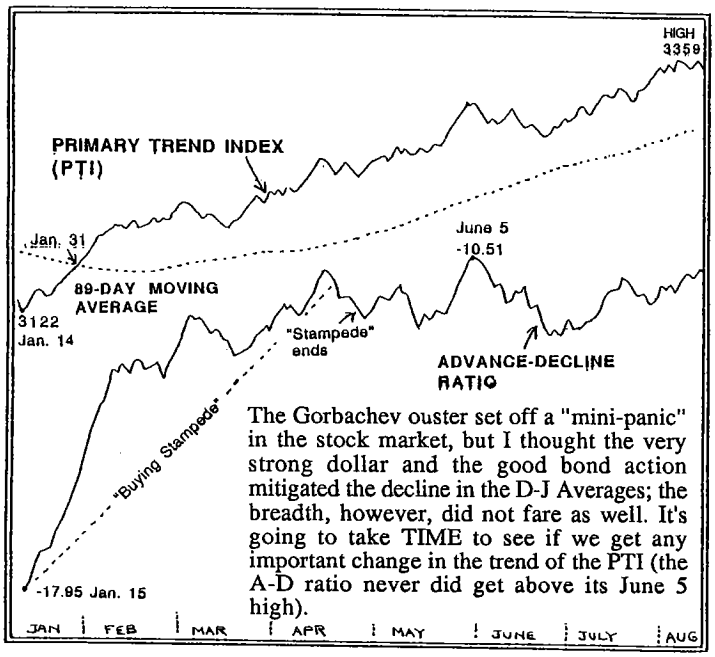
Surprisingly, the Dow stubbornly refused to confirm the list of new highs. Furthermore, there was very little follow-through on the part of those averages that did push to new highs. Thus, the mood of the stock market could only be described as tentative. It was a market that didn't want to go down, but at the same time appears nervous about going up.

What does it mean when the Dow fails to confirm the other averages? Many analysts write this action off, claiming that the "broad averages" are much more representative of the market than the Dow. This may be true, but the stock market demands harmony, and when the average of 30 of the largest companies in the nation refuses to confirm the broader averages, it has often been a harbinger of trouble (remember, not only the Dow but the Transports and Utilities also failed to confirm the new highs in the composites).

The breakout by the composite stock averages to new highs was a strange one. Ordinarily, following a six-month trading range, one would expect the upside breakout to be accompanied by high volume and speculative fireworks. It didn't happen that way. Instead, some of the major averages laboriously "pushed out" of their extended trading ranges. In other words, the move was remarkably subdued.

The reason, I suspected, is that this stock market was pushing against the upper regions of overvaluation. I discussed the overvaluation problem at length in the last Letter so there is no reason to go into this again. Suffice it to say that in mid-August the





The Gorbachev ouster set off a "mini-panic" in the stock market, but I thought the very strong dollar and the good bond action mitigated the decline in the D-J Averages; the breadth, however, did not fare as well. It's going to take TIME to see if we get any important change in the trend of the PTI (the A-D ratio never did get above its June 5 high).

Dow was selling at a fat 23 times earnings while yielding a thin 3.0%. Knowledgeable investors know that historically these are bull market top figures, and there was undoubtedly a lot of selling going on --even as new buyers enter the market. Obviously, the more evenly matched the buying and selling, the longer the market will remain in or near a trading range.

I might add that recently the Transportation Average has been acting poorly (see page 1 chart). The Transports have been lagging, and on several days the Transports actually declined (diverged) even when the Dow pushed higher. Thus, the Transports (which reflect sales, shipping and travel) were issuing a subtle warning signal in not confirming the rallying tendencies of the Industrials (the Utility Average had already issued its own warning signal via the sharp break several weeks earlier).

PRIMARY TREND INDEX: To me, one of the most fascinating things about this market has been the steady climb of my Primary Trend Index (PTI) -- coupled with the lack of any dramatic response from the stock market. If you study the chart on page 2, you will see that the PTI turned bullish on January 31, 1991. The PTI remained bullish, rising month after month with only minor setbacks. But why didn't the stock market responded more forcefully? That was the action that bothered me.

I have a few rules or maybe I should call them observations concerning the PTI and the stock market.

Rule #1: You may choose not to act on a PTI signal -- but don't ever go against the PTI. In other words, when the PTI is in its bullish mode (holding above its 89-day moving average and climbing) do not short the market. Conversely, when the PTI is bearish (below its MA and declining), don't try to beat the market -- just be OUT of stocks.

Observation #2: When the PTI is bullish and climbing, the stock market may not follow immediately on the upside, but it will not go down. Conversely, when the PTI is bearish,the stock market may not fall apart, but don't play for a rally.

The steady advance of the PTI without new highs in any of the three D-J Averages and without a new high in the A-D ratio was somewhat unnerving. I have see this kind of action before. To me it means that the market is burning up a lot of "technical ammunition," but with all that fuel-burning the Dow Averages refused to break out on the upside. There's a limit to how long and how far the PTI can rise before becoming exhausted. So in such instances the question is -- how much damage will be done when the PTI finally turns down. This is what I want to see now, and the results will go a long way towards how I measure the strength (or weakness) of this market.

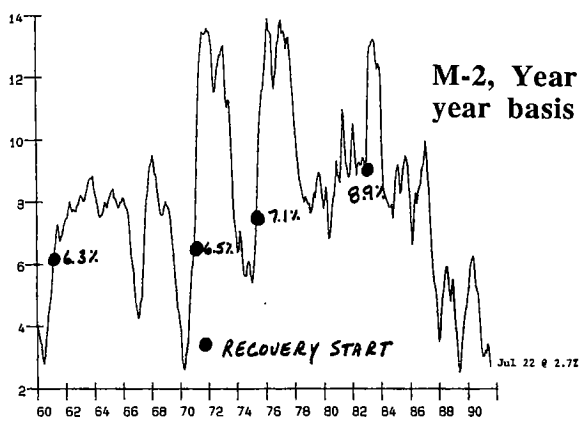
The very valuable Summation Index (based on the juxtaposition of two exponential moving averages of breadth) turned bullish on July 9 and had been working its way steadily higher. As long as the Summation Index is rising, it means that energy (money) is moving into the market. When the Summation Index turns down it provides a sell signal. As a rule, the Summation Index, once it turns bullish, will rise for a period of around four to six weeks. As of last week, the Summation Index was in its sixth week of rise. Then on Friday, August 16, the Summation Index turned down, rendering a sell signal. Remarkably, the sell signal occurred two days before the Gorbachev ouster. As is the case with the PTI, it will now be crucial to see how much damage is done to the market when the Summation Index is in its bearish mode.

This is a very important concept. The concept is as follows -- when the Summation Index is in a bullish mode, do the averages respond bullishly? If they do, fine, that's bull market action. But if they don't, watch out, something is very wrong. Conversely, when the Summation Index moves into its bearish mode, do the averages respond with large declines? If they don't, that's highly constructive. It's bull market action. But if the averages fall apart when the Summation Index is its bearish mode, watch out. That's bear market action.

Note: My friend, Tom Feeney, of Marathon Asset Management (La Jolla), in a report to clients writes that throughout the twentieth century to date the D-J Industrials have sold at an average of 14 times earnings while yielding an average of 4.5%. The Dow has sold at an average of one-and-a-half times book value. "These ratios have applied over decades that have included war and peace, bull and bear markets, rampant optimism and pervasive gloom, boom times, recessions and a depression . . . Curiously, when smoothed the ratios look remarkably similar from the first half of the century to the second. When one reads the market commentary of the times, there were always persuasive voices raised to convince investors that 'It's different this time' to justify what, in retrospect, was excessive bullishness or bearishness . . . If we apply the twentieth century's average price-to-earnings, price-to-dividend and price-to-book ratios to today's level of earnings, dividends and book values, we find that each suggests a Dow level of around 2,000. Near 3,000, the Dow is about 50% above the century's norm."

Russell comment: What Tom Feeney writes is well worth pondering. Because ultimately, the market tends to do what it has to -- to return to average normal valuation. This suggests that the next bear market could be a brute -- in order to bring the market back to normal valuation readings after years of above normal valuation readings. But, of course, "This time it may be different."

ECONOMY: Joe Granville stresses that the stock market is a lead indicator and economic statistics are lag indicators. So Joe asks, that being the case, why should a stock market operator pay any attention to the state of the economy at all? Joe has a good point. Nevertheless, there are a few areas in the economy that bear watching (if only for our own edification).

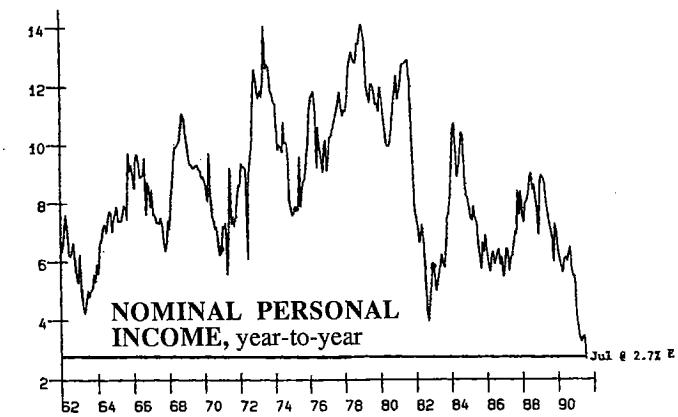


One study that I find fascinating is shown on this chart courtesy of Ed Hyman and Nancy Lazar (*International Strategy & Investment).* This is the M-2 money supply on a year-to-year basis. Note that each recovery since the 1960s has required a higher M-2 growth number. Look at the chart. 6.3% growth in 1962, 6.5% in 1970, 7.1% in 1975, 8.9% in 1984. Currently, the growth rate in M-2 is only 2.7%. Is this enough ammunition to pull us out of recession?

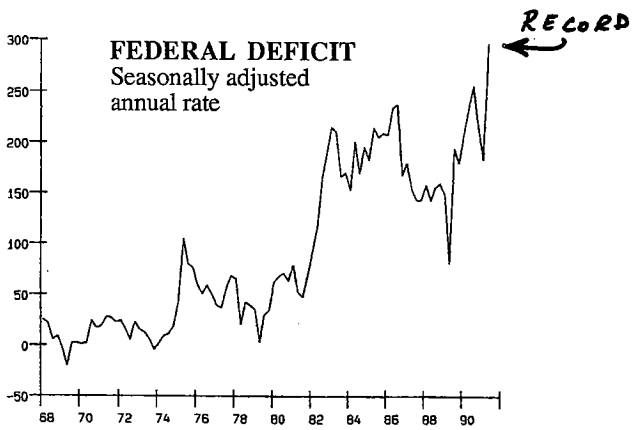
We should know shortly. Of course, the stock market is well aware of the lagging money supply. "News known is news discounted" runs the old Wall Street adage. So even though corporate profits in the second quarter were down a dismal 25% from last year's weak second quarter and even though money growth is lagging badly, the stock market has taken it all in stride -- in fact, the market appears singularly disinterested.

What the market is interested in is forthcoming corporate profits -- profits for the fourth quarter and profits for 1992. And with the major stock averages near their all-time highs, it's clear that the stock market has already positioned itself for some pretty juicy profits in 1992 and beyond.

The second chart shows Nominal Personal Income. Here we see that the income of the average American on a year-to-year basis has dropped to its lowest level in thirty years. Looking at this chart, is it any wonder that the auto industry is in a continuing slump and that retail sales are unimpressive? We might also remember that the consumer is responsible for roughly two-thirds of GNP. If consumers pull their horns in, the economy goes limp.



The third chart shows the Federal Deficit, which is literally taking on a life of its own. Writes Ed Hyman, "Another reason private borrowing is declining. During second quarter 1991 the Federal Deficit rose to almost $300 billion. The Federal Deficit is crowding out private credit demands." Furthermore, states Hyman, "A federal deficit disaster is brewing for 1992." Ed (who tends to be an optimist) then notes that the House of Representatives approved a $5.7 billion bill to extend insurance benefits, a $21.9 billion appropriations bill to start building the superconducting super collider atom smasher and 15 new water projects plus the approval by the Senate to give each of its members a $23,200 raise.



DOW STOCKS: The 30 D-J Industrial stocks comprise about a quarter of the value of the entire NYSE. Probably no other 30 stocks are more scrutinized, charted and analyzed.

It's interesting to note what happened to the Dow stocks over the past 20 years. First, Boeing was by far the best investment, turning $10,000 into an amazing $937,000 over the 20-year period. Philip Morris was second at $631,000. McDonald's third at $226,000. Exxon was fourth at $205,000. Merck was fifth at $179,000. Chevron was sixth at $168,000. Disney was seventh at $156,000. The worst actors were Caterpillar, Kodak, Goodyear, Sears and Beth Steel, all turning $10,000 into less than $30,000 over the same 20 year period.

But since the beginning of 1991 the laggers have been the winners. For instance, since January 1 Goodyear is up 102%, Sears up 62%, Allied Signal up 44%, Merck up 43%, Du Pont up 33%, AT&T up 32%, Philip Morris up 31%, Int. Paper up 30%. Worst performers this year were: IBM down 10%, Westinghouse down 8%, Proctor & Gamble down 7%, United Technologies down 3%, Kodak down 2%.

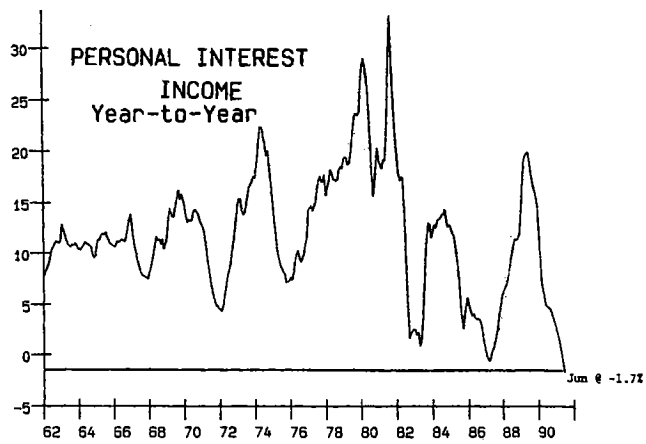
The stock market never guarantees consistency, and sometimes the worst performers over the last two decades (such as Goodyear or Sears) can be the best performers over a given period of six months or a year.

Looking at the actual current charts, here's what I see. Allied, AT&T, Coca Cola, Du Pont, Goodyear, Merck and maybe Sears all look good -- all in strong bullish trends. Top-outs appear to be Boeing, GM, IBM, McDonald's, MMM, Westinghouse and Woolworth. The rest of the Dow stocks appear to be in various stages of neutral or "we'll have to wait to see."

INVESTMENT POSITION: Yep, Ferdinand the bull, is still in the box. A recent face-lift hides the fact that he's a lot older than he looks. Andyeah, he's still very nervous.

One of the major problems facing investors today is the advent of lower interest rates. Many of my subscribers live on the return on their bonds or money funds and many others at least augment their salaries with interest income.

This chart (courtesy of Hyman and Lazar) shows the dramatic decline in personal interest income. In fact, it's a record decline and here's what Ed Hyman says: "Consumers are experiencing a record decline in interest income of -1.7%. Personal Interest Income, at $670 billion, accounts for 14% of total Personal Income."



So when rates go down, it hurts people who live on fixed-rate incomes. In fact, a recent study shows that lower rates are costing consumers roughly $18 billion in lost income. And my guess is that most of this lost income comes out of the pockets of the normally big-spending upper middle class.

The question: if you are one of those who is sitting with called or matured bonds or a money market fund offering low rates, what do you do? My answer -- sit tight, exercise patience, don't do anything rash or drastic. The situation will change in due time.

The fund managers are well aware of this predicament on the part of tens of thousands of people. Never wanting to lose a juicy opportunity, the managers are offering all sorts of higher yielding funds. So let me put it this way -- in general, particularly in the current environment, the higher the yield, the riskier the investment. Sensing this move to lower rates, some months ago I recommended a number of closed-end bond funds, all selling at a discount and all yielding better than 10%. Many of these funds are now selling at higher prices and are not as attractive as when I recommended them.

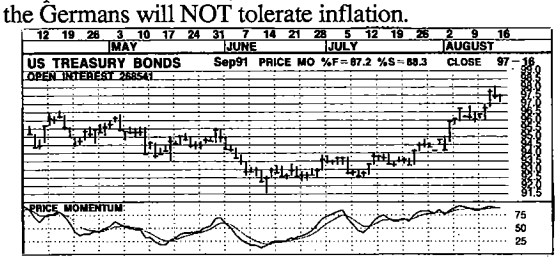
Therefore, I think that this is the time to grit your teeth and just be conservative. I don't see anything wrong with T-bills or say two-year T-notes at this time. They are safe, they are free of state taxes, and they represent a good place to park your money while we await developments.

Remember, the stock market, on a valuation basis, is selling in an area that is characteristic of tops. The stock market seldom stays overvalued for long. My neighbor, Gerry Weiss of *IQ Trends* in La Jolla, has long been an expert on overvalued and undervalued market areas, and in her latest mailing Gerry notes, "For the record, the average length of time at Overvalue is six months." She adds, "It is important to remember that unless dividends are increased generously, when either the market or an individual stock is Overvalued, the upside potential is rarely worth the downside risk and sooner or later a major decline is inevitable."

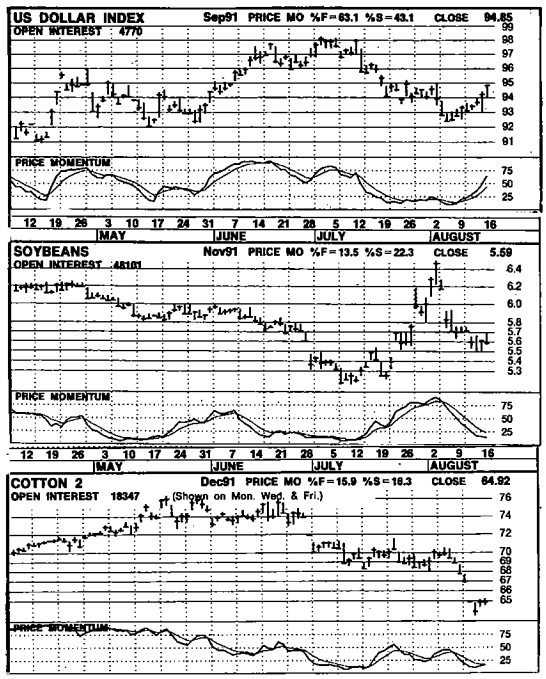
I think what Gerry is saying translates into one word, -- PATIENCE. Situations change. In an economy which is churning out government deficits of over $1 billion a day, low interest rates are only a temporary phenomenon. In the meantime, keep Russell's First Rule of Investing firmly in mind. The rule: **"Above all, don't lose money."**

CHARTS: The bonds have been a powerhouse, but they are now severely over-bought. Higher bond prices mean lower interest rates, and the lower rates would normally make the dollar less attractive. But the market will do what it has to do, and what the dollar has been doing is rebounding (correcting) following its July swoon.

On August 15 the Bundesbank raised its key discount rate a full 1% while boosting its Lombard rate to a fat 9.25%. German inflation has crept up to 4.5%, a scary statistic for Germans, who fear inflation as much as we fear deflation. In boosting its rates, the very independent Bundesbank is also symbolically spitting in the Fed's eye, since the Fed and the Bush boys have been pressuring for lower world rates in order to make what the US is doing look more palatable. In a few years when a single European currency is in place, the dollar may be on its way to becoming an unwanted currency. In my opinion, the Bundesbank will probably become the European central bank, the Federal Reserve Bank of Europe. And the Germans will NOT tolerate inflation.



In the meantime, the food and grain commodities have been hit hard, and the CRB Commodities Futures Index is flirting with a multi-year low. It's a strange dichotomy -- the articles and services we consumers use from cars to medical to movie tickets, keep rising in price, but raw materials are weak (all charts from *Investor's Daily*).



Investor's Daily (Aug. 14) writes optimistically, "US interest rates and inflation are nearing levels last seen in the go-go years of the 1960s, raising hopes for another decade of steady economic growth."

Ah, but there's a difference. The difference is that this is a global world and the US is mired in debt. Today's rates have been brought down to artificially low levels by a Fed that is trying to jump-start a recalcitrant economy. But with $15 trillion in total debt overhanging the US economy, the cost of servicing that debt is huge. Consequently, the need for money should be strong. So why are rates low? Answer: Fed manipulation plus amazing confidence, confidence brought on by a government which has been underwriting the collapse in S&Ls and banks. The massive government "safety net" has given the markets confidence -- at the cost of tens of billions of dollars in new government debt, all of which will ultimately be paid by you and me -- the taxpayers.

Have our politicians finally discovered the ultimate free lunch? The answer is no, the massive debts being built up today will be paid by Americans in the form of a lingering recession and a declining standard of living, -- brought on by a long-term sinking dollar and inflation (although we could be getting a spate of deflation first).

NOTES & QUOTES: Warren Buffet (CEO of Berkshire Hathaway) is one busy billionaire. First he helped liquidity-squeezed American Express by injecting $300 million in funds to buy up their special issue of preferred stock. Then when the Salomon scandal hit, Buffet protected his $700 million investment in Salomon by stepping in as temporary CEO. The shady trading by Salomon's top traders was no great surprise, but the cover-up by its top executives was an unexplainable shocker. Buffet promises that the "new Salomon" will be squeaky clean. I believe him but a lot of the mighty have fallen. And some question whether Salomon will ever be the same -- or as powerful.

* *

Across the land, corporations are trying to meet the profit squeeze by cutting expenses. The route -- get rid of employees. The list of companies cutting back keeps growing: Pan Am. laying off 5,000, Sears laying off 33,000, Gen. Dynamics 1,200, Grumman 1,900, IBM 10,000, Digital Equipment 3,600, Apple 2,500, US Air 3,500, Citicorp 17,000, Hanover Trust 6,200, and even the NYSE which will lay off 18% of its work force. The Security Pacific/B of A merger will result in lay-offs of 20,000. Next, the cities, states and municipalities are also cutting back. The combined deficit of the 50 states will be around $39 billion, and almost all states say in their constitutions that their budgets must be balanced. How do you balance the books -- raise taxes and fire the lower echelons (of course, you never fire the administrators).

* *

One of the most profitable areas for the big banks is trading currencies. And what the traders love is currency volatility. Between January and July the dollar dropped 27% against the mark. Since July, the dollar has risen 5% against the mark. Now (my opinion) the mark appears to have put in an important bottom. At the 15 major trading banks profits in foreign exchange were up 27% to $701 million. The top currency trading banks are Citicorp, Barclays, J.P. Morgan, Union Bank of Switzerland, Lloyds, Chemical and B of A.

* *

In 1960 Congress cost us $131 million. Last year Congress cost us $2.24 billion, a rise of 1,709%. This year the cost for Congress will rise to $2.55 billion, up 13.8%, and next year the tab will jump to about $3 billion, up a massive 17.6%. Currently Congress employs a staggering 37,388 people, 14,000 more than 1980. A good deal of this spending goes towards re-electing these wild-spending politicians. Yes, these are the same characters that have approved federal deficits that are now running better than $1 billion a day. And incredibly, we put these cowardly incompetents back in office about 95% of the time. Russell opinion: There's a way to change this disastrous situation, and you do it with your feet. You walk to the voting booth and VOTE THEM OUT. Motto -- if he's an incumbent, Republican or Democrat, get rid of him. Almost any new pols would be better than what we have now.

* *

Gosh, why is nice William Seidman quitting his glamour job as head of the FDIC and the RTC? Mmm, maybe he's looking for a happy job. The FDIC has predicted that 340-440 banks will go belly up in 1991-92 with total assets involving about $95 to $160 billion. Now they've upped their ominous predictions to about $140 to $200 billion. Of banks with assets of more than $1 billion (362 banks), one in five reported losses in 1990. This year could be worse. Two bank analysts for Kidder, Peabody now identify 367 banks that are on their trouble list. Of the 60 banks that have failed in 1991 so far, 90% have been on the Kidder list. The five biggest on the list that are still alive are Chase Manhattan, Bank of Boston, MNC Financial of Baltimore, Southeast Banking (Miami) and First City of Texas. Good luck on your next job, Mr. Seidman.

* *

Looking for a state with no personal income tax? Here's the list -- Alaska, Connecticut (but maybe not for long), Florida, Nevada, New Hampshire, S.Dakota, Tennessee, Texas, Washington, Wyoming. I recently bought a motorcycle in Iowa. Registration fee was $20. I just re-registered my cycle in California, fee $375. As I was saying, the state of California is going bonkers.

* *

Asylum-seekers (people looking to escape from somewhere else) are up 80% in Switzerland. But the bigger and more emotional problem for the Swiss is whether to join the European Economic Union. The Swiss have always been loners. They don't like decisions made for them to come from somewhere else. Switzerland has always been the nation that dictators and despots leave alone. Why? Because if things go bad for the baddies, they want a place to escape to, and that place historically has been Switzerland. Facts: Switzerland is made up of 26 federated cantons and half-cantons, it has a population of 6.6 million of which 1.1 million are foreign workers. Unemployment is a tiny 0.7%. All Swiss must serve in the army, and conscientious objection is illegal and punishable. Primary industries are tourism and finance. Inflation in Switzerland is 1.9%, German is spoken by 65% of the population, French by 18%, Italian by 12%.

* *

I've read many books on the meaning of the symbols on the dollar bill. One theory is that the symbols pertain to Free Masonry, and it is true that many of the 56 signers of the Declaration of Independence were Masons, many of them high in the order. The eye atop the pyramid on the dollar is the all-seeing Grand Architect, a Masonic term for God. And some maintain that the pyramid itself signifies the release of the Israelites from Egyptian slavery. The feathers on the wings of the eagle count 33 on one wing and 32 on the other. The numbers 33 and 32 are the the highest number of degrees that can be conferred on a Mason when he passes through the Scottish rites (this is one of the two series open to the Masons). The other, which is called the York, has only 9 ranks, and 9 is the number of feathers on the eagle's tale. Coincidence? It's hard to believe it's a coincidence. What do you think?

* *

Speaking of currency, there's a lot of talk from the far right conspiracy addicts about the government giving us the shaft with "a new currency" (believe me, we've already been given the shaft with the old currency). The talk, I believe, is nonsense. The so-called new currency will be the thread running through 100 dollar bills (visible when held against a light) so that these bills can be separated from counterfeit bills. Once the new bills are issued, it is thought that it will take a year or so before all the old bills are replaced. The fear is that at some point the government will announce that all old bills are worthless. Personally, I don't think that's going to happen, but if it does it would obviously render cash hoards of old bills worthless. Incidentally, the new bills have created a panic in the Soviet Union, where dollars have been hoarded. The Soviet people were afraid that the new money would render their hoarded money worthless.

* *

No Inflation? Chrysler, with no real changes, announces an 1.5% boost in new car prices. GM announces an 11% rise in certain compacts, and an average price on its whole line up 3.5%. Meanwhile, single-family home prices rose 5.4% in the second quarter over the first, and were up 4.7% on a year-to-year basis. What's really happened is that the prices of many raw materials have declined, but on the items you and I buy -- they're heading up . . . US auto manufacturers are afraid that their new boosts are pricing their cars out of the market. Said Ford CEO Harold Poling (defending his price boosts), "We're losing our shirts in the marketplace." The new '92 cars will cost the average American family 32 weeks of take-home salary, up from 25.5 weeks in 1982. The new boosts will be a competitive help to Japanese auto makers, whose costs are lower than manufacturers in the US.

* *

I keep reading articles (usually in the op-ed pages of the *WSJ* or the *NY Times*) to the effect that deficits don't really matter. They don't? Well, then why is the quality of life declining across the land as libraries close early, school programs are cut, tens of thousands of people are fired and taxes are raised. Here at San Diego State University over one thousand students are going to miss classes they signed up for. Why? Well, 662 course sections have been eliminated, 31 professors are being "retired" and about 400 temporary faculty and staff members are being dropped.

* *

If the government does it, you can bet it will be subject to (1) waste, (2) screw-ups, (3) corruption. Remember the "Superfund" that was supposed to clean up America? Well, of the $200 million that has been spent since 1988, one-third has gone to pay for administrative expenses and private contractors. Is this what they mean by toxic waste? So far, the Superfund's expenses have risen two to three times the amount originally envisioned by the planners. Of the 1200 sites slated to be cleaned up, only 64 have been completed so far (since 1980 the government has spent $7.5 billion on the Superfund).

* *

EVs, electric vehicles, are becoming a reality. Every EV represents a possible savings of 10 to 20 barrels of oil annually. Of the 17 million barrels of oil that the US consumes daily, cars and trucks take up 63%. Less than 5% of our electricity is generated by oil. Peugeot and Fiat now sell EVs in Europe. But US and all the rest of the major car companies are rushing to get ready for the EV revolution. The big problem -- batteries. How to produce a long-lasting battery that is reasonable in cost. Chrysler, Ford and GM have created the US Advanced Battery Consortium in order to jump-start research and development of advanced EV batteries.

* *

The hot pistol in the world of armaments is the Glock. The Glock 17 is a wonder story. With almost no firearms experience, Gaston Glock, an Austrian mechanical engineer (an expert on synthetic materials), produced the first prototype Glocks for the Austrian army. The pistol holds 17 rounds and one more in the chamber. The Glock has some plastic parts, which make it much lighter than the typical semi-automatic. It has an almost indestructible receiver made of a special plastic. Glock uses a carbo-nitrating hardening process which penetrates its metal parts and prevents corrosion while producing a hardness rated just one step below diamond hardness. To demonstrate its durability, a Glock was picked off the

assembly line and fired 10,000 rounds in four hours. The pistol held up perfectly. Glock has now been adopted by the Austrian and Norwegian armed services. Increasingly, US law enforcement agencies are now adopting the amazing Glock.

* *

Product liability law suits are proving to be the bane of manufacturers. Verdicts against manufacturers can run into the millions of dollars. According to *Fortune* magazine, the total cost of these law suits now comes to over $180 billion, and this includes out-of-court settlements, attorney and expert witness fees, and jury awards. Example, rather than face a jury, Sears gave a Texas couple $4.8 million on a propane fuel suit (they left the propane tank indoors and it leaked gas, burning the man badly). Bell helmets used to be tops for car and motorcycle safety. Bell stopped selling in the US -- the liability costs were too high.

* *

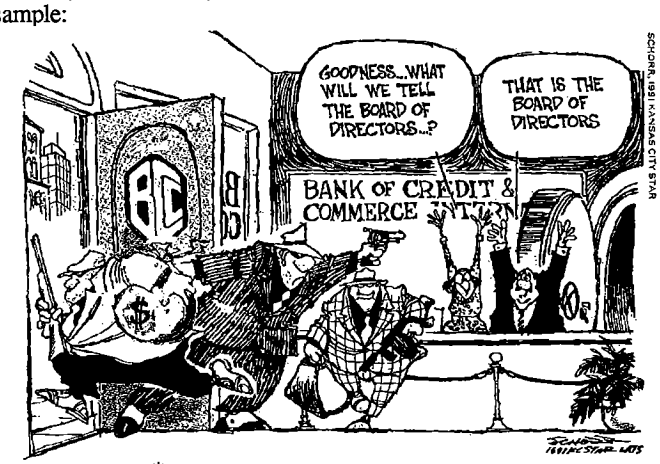
George Will is, in my opinion, one of the most intelligent journalists in the nation. In a recent interview he was asked about limited terms for politicians. Will answered, "I've changed my mind on term limits. I'm for them now . . . and I feel so strongly I may write a book." Asked what changed his mind, Will replied, "Accumulated Washington experience, in part. I'm now convinced Washington is so corrupted by a professional political class of a sort incompatible with a republic that the national interest is simply swallowed up by people getting re-elected." Russell opinion: I've been saying this for years. Washington politicians are bankrupting this nation. There's only one solution -- get these people and their re-election obsessions out of office. There's seems to be only one way of digging these people out -- limited terms mandated by law. By the way, did you know that the recent bill which hands Senators a $23,300 pay raise has an outrageous rider attached to it? The rider eliminates from public disclosure any gifts the Senators get from lobbyists or from other sources. I say, GET THESE POLITICAL BUMS OUT OF OFFICE.

* *

In a cover story entitled, "What Happened to the American Dream?", *Business Week* notes, "Measured in inflation-adjusted dollars, the median income of families headed by someone under 30 is now 13% lower than such families earned in 1973 . . . The real incomes of under-30 families headed by high school graduates have fallen 16%. For drop-outs, the decline has been a dizzying one-third, for blacks the same." Russell comment: For four decades we've been living high on the hog on money we've borrowed, not earned. I've said all along that when you have a big party and put it on the tab, someone's got to pay. The pay-back is starting now, and one aspect of that pay-back is a lowered standard of living for our kids and our kids' kids. The declining standard of living will come about through either inflation or deflation (or both), but you can't have stable prosperity with a $3.4 trillion federal debt, plus deficits of over $1 billion a day.

* *

Everbody in the financial world is talking about the BCCI bank scandal, but as usual, the cartoonists have the last word. Here's a sample:


GOODNESS...WHAT WILL WE TELL THE BOARD OF DIRECTORS...?
THAT IS THE BOARD OF DIRECTORS
BANK OF CREDIT & COMMERCE
BC
SCHORR 1991 KANSAS CITY STAR

* *

I read a dozen newspapers a day, and of course that means passing by a lot of comic pages. The joke (funny) strips have no continuity -- each strip stands on its own. But Mary Worth, Spiderman, Rex Morgan MD, Judge Parker, who can keep up with them all? I get mixed up on who's doing what in which strip. The one strip I always read is Blondie, and it's almost always good for a laugh. When I was a kid, Dick Tracy was THE strip. In those days the Sunday tabloids had the comics on the outside page. Dick Tracy graced the outside wrapper of the *NY Daily News*, and the price for the Sunday paper was a big nickel. On Sunday morning I'd run out to get the *Daily News*, and if I had the nerve to spend another nickel I'd buy the *Daily Mirror* too (also good comics). When I was 15 I thought I wanted to be a comic strip artist. Later I got serious, and I joined New York's famous Art Students League. But in the end I got realistic, and I gave up on my ambition of being another Picasso.

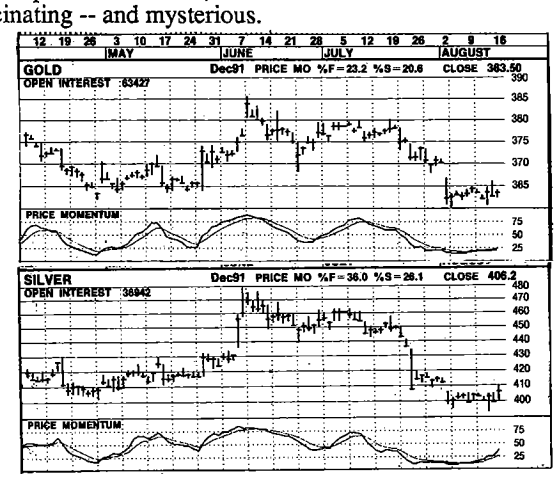
GOLD, SILVER: With raw materials and metals deflating, silver has sunk to around the $4 support level. Gold has backed off to support around 355. Note that price momentum (bottom of the charts) has dropped to the oversold area; but the momentum lines suggest that the next move should be up.

Paper money is now being created at a furious rate in the US and around the world. Ordinarily this would send gold surging higher. But my own opinion is that we are now (slowly) being enmeshed in the downside of the so-called "Long Wave" (Kondratieff Wave). And it's a deflationary wave. Therefore, I don't believe that the next major rise in gold will be based on inflation. I think the next major rise will be based on a move to safety and out of the banking system as discussed in the last Letter.

It is crucial to remember that gold is the base of the pyramid, the real money, the intrinsic wealth, and all other "monies" are simply paper backed by government edicts and promises.

To my mind, it is simply incredible that after so many years of mismanagement and broken promises, there is still so much faith in paper money and specifically the dollar. Eras of high confidence are unexplainable just as eras of low confidence are inexplicable.

I remember the year 1949, when the Dow was in the fantastic bargain 160-170 area. People had little confidence in the economy, and everyone was talking about the coming "great post-war depression." Of course, the depression never came, and the stock market pushed relentlessly higher. But it wasn't until 1954 that the Dow finally bettered its dreaded 1929 high of 381.23. After that confidence finally increased, and basically it has been increasing ever since. Today, I think we are at the opposite (high end) of the confidence cycle. Nothing seems to shake people's confidence in the stock market or in the "miracles" the government can accomplish. Ah well, that's what makes this business so fascinating -- and mysterious.



NEXT MAILING: Sept. 4

LATE NOTES: To me, the most significant part of the early week's action was the extreme weakness in the D-J Transportation Average. If Transports get totally out-of-gear on the downside (and they're getting there), it sets this market up for trouble, regardless of whether the Dow hits a new high or not. Unfortunately, the Soviet situation will constitute a major unknown for months to come. The action in the Deutsche mark may tell us more than anything else about the intentions of the new Soviet regime.